

New Jersey Public Broadcasting Authority

Meeting of the Audit Committee

August 29, 2012 at 3:00 p.m.

New Jersey Public Broadcasting Authority
Conference Room and by Conference Call
25 S. Stockton Street
Trenton, New Jersey 08608

MINUTES

Anthony Della Pelle, Chair, Presiding

Minutes of the meeting of the New Jersey Public Broadcasting Authority ("NJPBA" or "Authority") Audit Committee (the "Committee") held at the New Jersey Public Broadcasting Authority, 25 S. Stockton Street, Trenton, New Jersey, 08608, and by Conference Call on Wednesday, August 29, 2012, at 3:02 p.m.

1. CALL TO ORDER, OPEN PUBLIC MEETINGS ACT STATEMENT AND ROLL CALL

Chair of the NJPBA Audit Committee, Mr. Anthony Della Pelle, called the meeting to order. Chair Della Pelle read the Open Public Meetings Act statement as follows: In accordance with the provisions of the Open Public Meetings Act of the State of New Jersey, notice of this meeting has been filed with the Office of the Secretary of State, has been posted on the appropriate bulletin boards maintained for such purposes by the Authority, distributed by press release to two daily newspapers in New Jersey, and announced on NJTV. Notice was made in advance of this meeting.

Chair Della Pelle then requested a roll call. NJPBA Audit Committee Members present and participating at the meeting were Anthony Della Pelle, Chair (*via phone*); Guy Tassi; and Christopher Mathews. Also present and participating were Sherise Ritter, Principal, Mercadien, P.C.; and Jill Ann Murphy, Director, Mercadien, P.C. Also present were Brett Tanzman, Governor's Authorities Unit (*via phone*); Cliff Rones, Deputy Attorney General; John Blair, NJPBA Executive Director; Lynn Pennell, NJPBA Finance Officer; and Nichol Gee, NJPBA Office Manager (*taking minutes*).

After the roll call, Mr. Blair stated that he was present only to facilitate the start of the meeting, and that in accordance with Executive Order No. 122 (McGreevey 2004), he and Ms. Pennell were exiting the meeting. He said that Ms. Gee would stay to take the minutes. Mr. Blair and Ms. Pennell left the room at 3:04 p.m.

2. RESOLUTION APPROVING THE MINUTES OF THE JUNE 27, 2012 AUDIT COMMITTEE MEETING

Chair Della Pelle asked for a motion to approve a Resolution Approving the Minutes of the June 27, 2012 Audit Committee Meeting. Mr. Tassi made a motion to approve a Resolution Approving the Minutes of the June 27, 2012 Audit Committee Meeting. Mr. Mathews seconded the motion. Chair Della Pelle asked if there were any changes to the minutes. No changes were indicated. Chair Della Pelle asked for a roll call vote to approve the Resolution Approving the Minutes of the June 27, 2012 Audit Committee Meeting. The motion was voted upon and approved unanimously.

3. DISCUSSION OF THE FY 2012 NEW JERSEY PUBLIC BROADCASTING AUTHORITY AUDIT

Chair Della Pelle asked Ms. Ritter to present an overview of the FY 2012 Audit to be conducted by Mercadien, P.C. ("Mercadien"). Ms. Ritter stated that management of the NJPBA received the engagement letters from Mercadien, which were reviewed by Assistant Attorney General Kavin Mistry, and per his instructions, the letters were modified to remove clauses which were redundant with the State contract under which Mercadien was engaged. Ms. Ritter stated that she brought the modified letters to the meeting.

Ms. Ritter stated that she had a letter for Chair Della Pelle regarding communications for the audit. She said the letter covered the scope of the audit, the independence of Mercadien, and the auditors' planning process, which would be similar to previous audits Mercadien conducted for the NJPBA. Ms. Ritter stated that Mercadien budgeted twenty-five percent (25%) of audit time for planning purposes in order to identify risks and areas of emphasis. She said the auditors would need to obtain an understanding of internal controls, although they are not required to test the internal controls. Ms. Ritter said if the auditors identified areas of improvement, that information would be addressed in a letter to management, and that any deficiencies identified would be addressed either in a letter or in the audit itself. Ms. Ritter stated that the auditors would develop materialities based on assets or revenue, and then select samples for testing.

Ms. Ritter stated that the audit was scheduled to begin on September 4, 2012. She said that Ms. Pennell had already forwarded a trial balance to Mercadien and that the auditors had identified adjustments that needed to be made. Mr. Tassi stated that was expected since this was the first year NJPBA was using QuickBooks for its ledger system. Ms. Ritter agreed that this was the first time QuickBooks was used to create the trial balance. Discussion continued regarding entry of data into the QuickBooks ledger. Ms. Ritter stated that entries were made on an ongoing basis for FY 2012.

Ms. Murphy stated that the trial balance for FY 2012 which was given to Mercadien included all transactions that were related to FY 2012, however transactions that occurred during FY 2012 which related to FY 2011 were recorded separately. She said this information needed to be merged to create one trial balance for the audit. Ms. Murphy

stated that the auditors would advise Ms. Pennell regarding how to make the appropriate entries while maintaining Mercadien's independence. Ms. Ritter stated that the first week of the audit would focus on this work. Ms. Murphy stated that assisting Ms. Pennell in this manner was included in the engagement of Mercadien and that once the entries were made, an adjusted trial balance would be generated. Ms. Murphy said this trial balance would be used as the starting point for the audit and that changes made to generate this trial balance would not be noted as adjustments on the audit. She asked if the Committee Members agreed with this method. The Members indicated that this was sufficient.

Chair Della Pelle asked if the work discussed by Ms. Ritter and Ms. Murphy would significantly increase the scope of work for the audit. Ms. Murphy stated that the budget for the audit included costs for closing assets. Chair Della Pelle stated that if upon review the scope of work were to change materially, the Committee would need to be notified so that it could convene and then bring the matter to the NJPBA Board for approval. Chair Della Pelle stated that if there was no material change, Mercadien should notify Mr. Blair, and he would communicate that information to the Committee.

Chair Della Pelle asked what the timeline was for the audit based on a start date of September 4, 2012 and also asked if that timeline would need to be adjusted if there was a material change in the scope of work. Ms. Ritter stated that the auditors would know the impact on the scope of work and related costs after their first week working on reconciliation and corrections. She said she would notify Mr. Blair of the time this work required. Chair Della Pelle reiterated that if the scope of work had to change, then the Committee would need to convene and then seek full NJPBA Board approval, which would take time, so Ms. Ritter needed to keep Mr. Blair informed of their findings.

Ms. Ritter stated that the second week would focus on the audit, and that only one week of field work was required. She said the auditors would have a draft of the financial statements thirty (30) days after the field work is complete. Ms. Ritter stated that the draft would be submitted first to NJPBA management for review and then be forwarded to the Committee.

Chair Della Pelle asked if the audit would be complete in time to review for a November Committee meeting. Discussion of the timetable for the audit relative to the requirements for submission to the Corporation for Public Broadcasting ("CPB") continued briefly. Ms. Murphy stated that she believed CPB reporting was due in November and that although the NJPBA could request extensions for filing, that was not preferable. Ms. Murphy and Ms. Ritter both indicated that the audit should be complete in time for a November meeting of the Committee and for filing with CPB.

Ms. Murphy stated that in the past, the NJPBA had combined financial statements with the Foundation for New Jersey Public Broadcasting ("FNJPB"), but that the agreement between NJPBA and FNJPB was terminated prior to FY 2012. Ms. Murphy said there were questions regarding the legal relationships between NJPBA, FNJPB and Public Media NJ, Inc. ("PMNJ") for FY 2012. Ms. Murphy stated that, for the purposes of filing with CPB, it was desirable to report the financial statements of all three

organizations, however combining financial statements might not be possible according to Generally Accepted Accounting Principles ("GAAP"). She said the auditors may need to create a special purpose statement. Ms. Murphy said she needed to review the Programming and Services Agreement between NJPBA and PMNJ to make this determination.

Chair Della Pelle stated that once the auditors made their determination, that information should be relayed to the NJPBA counsel for consideration and a final decision. Chair Della Pelle indicated that consultation with PMNJ might also be necessary, and that this issue could extend beyond the authority of this Committee. Ms. Ritter stated that how the information could be reported would come down to the economic and controlling interests between NJPBA and PMNJ. She explained that there were four different arrangements that could exist between the two organizations under GAAP, but if Mercadien determined that there was an economic interest or controlling interest between the organizations, but not both, then combining financial statements would not be permissible. Ms. Ritter stated that she would gather as much information as possible and then draft a position memo for review by the Committee and the attorneys. Chair Della Pelle agreed that this was the best way to address this issue.

Ms. Murphy stated that the auditors would need communication with the Department of the Treasury ("Treasury") Office of Management and Budget ("OMB") regarding a trust fund that was established with the funds from the sale of NJPBA's radio stations. Mr. Tassi asked what the role of OMB was. Ms. Murphy stated that OMB would need to identify where this fund was recorded and if it was part of the NJPBA budget or if it was recorded in Treasury's budget, which would require a footnote on the NJPBA audit. Mr. Mathews discussed the different ways OMB may have accounted for this fund. Ms. Ritter indicated that the auditors would need to identify what the fund was, where it was, and who the rightful owner of it was. Ms. Murphy stated that the auditors would need more communication with OMB than previously required because of this issue. Discussion continued regarding whether or not the auditors could discuss this with Mr. Mathews since he is a Committee Member. To maintain the independence of the Committee, Mr. Mathews directed the auditors to contact his supervisor at OMB, Mr. Jim Kelly.

Ms. Murphy asked if there were any other matters of concern to the Committee. Mr. Tassi stated that his only concern related to the changes in the use of the QuickBooks accounting software, which had been discussed earlier. Chair Della Pelle asked if either the Mercadien staff or the Committee Members had anything further to discuss. All parties indicated no further discussion was necessary.

Chair Della Pelle summarized the discussion stating that the audit was to commence on September 4, 2012, and that the auditors would alert Mr. Blair if changes to the scope of work were required due to the change in accounting software. If so, Chair Della Pelle said the Committee and the NJPBA Board would need to convene to approve any changes to the agreement with Mercadien. He stated that if there were no changes, then a preliminary report would be expected by the end of October or early November, and the

Committee would convene in November to review the audit prior to the next anticipated meeting of the NJPBA Board.

Ms. Ritter stated that if Mercadien determined that consolidated financial statements were not permissible under GAAP, then a special purpose statement may be required, which could also change the scope of work. Ms. Ritter asked if the auditors were permitted to contact PMNJ if they have any questions. Chair Della Pelle stated that the auditors were permitted to do so.

Chair Della Pelle asked if there was any further discussion on the audit. All attending indicated no further discussion was necessary.

4. OTHER BUSINESS

Chair Della Pelle asked if there was any other business the Committee needed to discuss. The Members demurred.

5. ADJOURNMENT

Chair Della Pelle thanked everyone for their participation and asked for a motion to adjourn. Mr. Mathews made a motion to adjourn the meeting. Mr. Tassi seconded the motion. The motion was voted upon and approved unanimously. The meeting was adjourned at 3:39 p.m.